Stansfeld, Hamer

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London

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COMMENTS

ON THE

CURRENCY FALLACIES

OF

LORD OVERSTONE,

AVOWED BY HIM IN HIS EVIDENCE

BEFORE THE BANK COMMITTEE

OF THE HOUSE OF COMMONS OF 1857.

TO BE THE PRINCIPLES ON WHICH THE

BANK CHARTER ACT OF 1844.

WAS FOUNDED.

BY HAMER STANSFELD, ESQ.

"IT IS CONSOLATORY TO KNOW THAT A TRUTH IS OFTEN MOST IN SEASON WHEN IT IS LEAST IN FAVOUR."

LONDON:
SIMPKIN, MARSHALL, AND CO., STATIONERS' HALL COURT.
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1858

COMMENTS ON THE CURRENCY FALLACIES OF LORD OVERSTONE,

AVOWED BY HIM IN HIS EVIDENCE BEFORE THE BANK COMMITTEE OF THE HOUSE OF COMMONS OF 1857, TO BE THE PRINCIPLES ON WHICH THE BANK CHARTER ACT OF 1844 WAS FOUNDED.

THE time will come when the nation will be astounded to find that its monetary system is based "on principles not only not true, but in every case nearly the reverse of the truth," betraying a marvellous ignorance of the true nature of money. These principles are defended by Lord Overstone, their acknowledged originator, with such ability and daring dogmatism, as to leave the impression still with the public that he is a great authority on currency. This can only be accounted for by supposing that his great power as a special pleader, and his surprising command of words, in conjunction with his position as a banker, a millionaire, and a peer, have confounded and blinded the public on an abstruse subject to which few of them have given any attention.

Verily may we exclaim with Oxenstern, "See, my son, with what little wisdom the world is governed." The misery inflicted on the country by Lord Overstone's erroneous views no language can convey; and as he still persists in maintaining them, *coûte qu'il coûte*, notwithstanding their failure by the suspension of the Act of 1844 twice in ten years, we are justified in throwing upon him, as a public man, the moral responsibility of the consequences. His evidence shows him to be self-opinionated to a degree almost criminal; and when he says that a relaxation of the Act "ought only to take place in the last extremity, and when the danger of general confusion shall have become imminent," he is evidently labouring under the delusion of a fixed idea which makes him dangerous to the community.

Let us extract some of his currency principles from the extremely verbose explanation of them in his evidence, and put their soundness to the test.

In answer to question 3646 he says, "I understand the great principle of the Act of 1844 to be this—to make the amount of paper money in the country conform in its variations to what would be the variations in the amount of a metallic currency, and that all other provisions of the Act are ancillary to the carrying out of that great principle." Here he includes in the "amount of paper money in the country" only bank notes, ignoring all other kinds of paper money; and this misconception of what constitutes money is the root of all his subsequent fallacies. Are not cheques as much ready money as bank notes, and are not bills, which are engagements to pay money at some future period, the principal money we have as a circulating medium for superseding barter? Bills and cheques are constantly floating for hundreds of millions, and yet he ignores them as paper money, and confines this term to thirty-eight millions of bank notes.

This great principle is directly antagonistic to the principle on which we have chosen gold as our standard of value. Gold was selected as the standard from its being supposed to be the least fluctuating material in value—it was chosen for the sake of its quality. The Act of 1844 disturbs this foundation, and makes the value of our money depend, not upon the quality, but upon the quantity of the standard, creating fluctuations in value, and counteracting the steadiness sought to be obtained by adopting gold as a standard. The Act makes the value of money to depend, not upon the demand and supply of money, but on the demand and supply of gold. Apply this principle to the African tribes using cowrie shells as money, who, finding their traffic increasing, and the quantity of shells inadequate to effect their interchange of commodities, should introduce paper tickets to supply the deficiency. They pass a law, we will suppose, to make these paper tickets convertible on demand into cowrie shells, in order to keep them up to the value of cowrie shells, which is their standard of value; but where would be the wisdom of arranging that these paper tickets, so necessary for carrying on their increasing trade, should diminish in quantity just in the same ratio as cowrie shells should leave the country. The very object of introducing paper tickets was to make up the deficiency of cowrie shells as a medium of circulation. This deficiency was an evil they were intended to counteract, but which Lord Overstone's principle would perpetuate.

Money is not gold; but gold is money when coined. Is Lord Overstone then correct when he says, "Gold is the money of England," and when he ignores all other kinds of paper money but bank notes.

A more baneful principle for the foundation of a monetary system could not have been devised than this boasted great principle of the Act of 1844, subjecting this country to fluctuations in the rate of discount at every important ebb and flow of gold. It may be traced to the same narrow view entertained by Lord Overstone of the nature of money, considering bank notes and gold only entitled to be classed as such. That this fallacy pervades the Act of 1844 is evident from restrictions being imposed on the quantity of bank notes issued, but none on bank post bills, which are equally money—*securities for obtaining their equivalent value in capital.* The only difference between them is, that bank notes are payable on demand and bank post bills payable seven days after date, Neither does the Act impose any restriction whatever on bills, however unsound their foundation may be; and yet to the enormous degree to which the issue of these has been abused, and to the reckless way in which joint-stock banks have lent their money, the present crash is in a great measure to be attributed.

The Act allows free trade in Accommodation Bills, the disgrace of the country, but not in Bank of England notes—it puts the curb on the wrong horse, on sound cash, instead of on spurious credit—the restrictions on Bank notes engender the creation of Bills.

The problem to be solved is, how to maintain the principle of convertibility into gold, and yet avoid the disturbance of our monetary system incidental to drains of gold. This may be done either by adopting Mr. Tooke's recommendation of requiring the Bank of England to keep constantly a much larger stock of gold, so that a drain of a few millions would not be felt, or by empowering the Bank of England to increase its stock of gold by issuing one pound notes as substitutes for sovereigns whenever the minimum rate of discount is five per cent., retaining one-third of the sovereigns as a guarantee for the convertibility of the notes, and on paying four per cent. for the two thirds of the notes of which they would have the use. In this way the sovereigns would be abstracted from the retail trade and transferred to the wholesale trade (each trade possessing and requiring a distinct stock) when an efflux of gold took place, and would be returned to the trade during an influx. The only objection to Mr. Tooke's recommendation is the extra expense which the nation would incur by keeping unemployed so much gold, involving a serious loss, whereas by the substitution of one pound notes for sovereigns there would be a considerable gain to the revenue. If in addition

to this safety-valve all restrictions on the quantity of bank notes issued were removed, the bank minimum rate of discount need never exceed five per cent. In the panic of 1825, when the bank was unrestricted in its issues, its minimum rate of discount did not exceed four per cent., and had the bank during the present panic been equally unrestricted in its power of supplying money, with the additional power of adding to its gold some £20,000,000 by the substitution of one pound notes for sovereigns, the rate of five per cent. need never have been exceeded, and all the evils arising from the extra charge for money (which has gone into the pockets of the moneyocracy, of which class Lord Overstone is the head,) and foremost amongst them the disemployment of labour, would have been avoided.

In times of general discredit and panic an increase in the quantity of ready money—be it of specie or paper money, as good as specie—is the one thing needful, and not a decrease, as the boasted "great principle" of the Act of 1844 absurdly provides. All experience bears testimony to the soundness of this principle.

In 1793 the panic was allayed by a loan of Exchequer Bills; and in allusion to it the Bullion Committee of 1810, in their report, give the following opinion:—"Your committee think it an important illustration of the principle, that an enlarged accommodation is the true remedy for the occasional failure of confidence in the country districts, to which our system of paper credit is unavoidably exposed."

In 1797.—"The circumstances," report the Bullion Committee, "which occurred in the beginning of the year 1797, were very similar to those of 1793—an alarm of invasion, a run upon the country banks for gold, the failure of some of them, and a run upon the Bank of England, forming a crisis like that of 1793, for which, perhaps an effectual remedy might have been found if the Bank of England had had courage to extend instead of restricting its accommodation and issue of notes; and the late governor and deputy-governor stated to your committee that they and many of the directors are now satisfied, from the experience of 1797, that the diminution of their notes in that emergency increased the public distress—*an opinion in the correctness of which your committee entirely concur.*" The panic was stopped by the Bank stopping to pay in specie, and being at liberty to issue an unlimited quantity of inconvertible notes—(they were not a legal tender, and became so first in 1833.) The Bank of England informed the committee of London bankers who applied to them for specie to pay the fractional parts of the cheques drawn on them "that they could not spare the specie,

but that the cashiers of the bank were employed night and day, by rotation, in preparing one and two pound notes, which they hoped would be ready by the following Monday."

In 1825 the panic was stopped by an issue of one pound notes by the Bank of England, found accidentally in a box stowed away, and by advances made on the security of goods, which they were authorised to make to the extent of £3,000,000 by Lord Liverpool, the Premier, and Mr. Robinson, the Chancellor of the Exchequer.

In 1847 and 1857, the panics were ended by the Act being suspended, which diminished instead of increasing the quantity of ready money during an efflux of gold and (its natural accompaniment,) a state of general discredit.

Can stronger evidence be given of the impolicy of "the great principle" of the Act of 1844 of diminishing the issue of ready money in times of panic? Bank notes are then wanted not as currency—for trade being paralysed, less currency is required—but as a means of satisfying debts already incurred. Ten years ago we placed on the title-page of a pamphlet entitled "A Remedy for Monetary Panics," this significant sentence, "A deficiency of the legal tender to meet the credit liabilities of the country in times of general discredit, and not a deficiency of the currency, is the cause of monetary panics; and an increase of the legal tender, but not of the currency, the remedy;" and all subsequent experience has confirmed the correctness of the opinion.

In France, where truly they manage these things better, the proper remedy of an expansion of sound paper money, instead of a contraction, has been acted upon. In ordinary times the Bank of France is unlimited in its issue of notes of £20 and upwards, and by a recent enactment they are empowered to issue notes of £2 and £4. In America the Government has been compelled, from having no specie to pay its servants, to follow the same course of expansion by issuing Treasury notes to the amount of £4,000,000. The rate of discount in France and America has returned to what it was before the panic, whilst Great Britain is still struggling under the pressure of the Act of 1844—the minimum rate of the Bank of England being yet six per cent. This state of monetary affairs, acting on a stagnant trade, will cause the gold set at liberty in France and America to flow here, and lead to the most violent reaction in the value of money ever known. These extreme fluctuations are the curse of the country, imparting to commerce the character of gambling. Merchants should open their eyes, and no longer be bamboozled and outwitted by the Lord of Moneyocracy on a subject so vital to their interests as money.

The great wheel for circulating the capital of the world, money, is constructed of two materials, coin and paper—the first constituting, as it were, the axis, and the last the circumference of the wheel. The paper money is of two kinds, both of which come under the class of credit money, (possessing no intrinsic value,) namely, cash paper money, such as bank notes and cheques, and bill paper money and other paper securities to pay money at distant dates. Both circulate on confidence, which is the foundation of credit; but as bank notes and cheques are payable on demand there is little or no credit compared to bills, which form the largest and most influential portion of the great wheel of circulation. If a great shock comes to confidence, a collapse takes place, bills become comparatively useless as a medium of exchange, and the great wheel of circulation is broken and stopped. What would Lord Overstone prescribe as a remedy? He would say, reduce the power and size of the remnant of the wheel still more by diminishing the quantity of the ready money portion—the bank notes—the cash. He would say, perish commerce, crumple up those who procure the ready money in exchange for bills—(the great London discount houses)—but don't sacrifice my great principle "until the last extremity and when general confusion has become imminent." What would common sense say? Repair the wheel as soon as possible to keep trade in motion—take away the rotten material and put in sound—increase your issue of bank notes to supply the place of bad bills, and rescue the commerce of the world from being paralysed by the ruinous action of a false principle.

We have called attention to two of Lord Overstone's fallacies—viz., that bank notes alone constitute paper money; and that a paper currency should fluctuate as a metallic currency. We now proceed to

Fallacy No. 3,

That a Bank of England note is nothing more than a certificate of gold.

In answer to 3899 he says:—"The opinion which I hold is perfectly plain and distinct—that bank notes are nothing more than certificates of gold in deposit." This definition did not appear to the committee so perfectly plain and distinct, and they renewed the interrogation later on, thus:—*Q.* 4024: "Your lordship in another part of your evidence has stated that the bank note is nothing more than a certificate that so much bullion is deposited, which bullion is to pay that note when demanded?"—*Ans.* "I stated that a bank note is a certificate issued against bullion. Of course we cannot say that £26,000,000 of bank notes are the certificates of bullion actually deposited, when there is only £10,000,000 or £12,000,000 of bullion deposited."—*Q.* 4025: "You have frequently made use of the expression that the bank note is nothing more than a certificate of so much bullion."—*Ans.* "It is a certificate of that amount of bullion which would be in circulation as money if there were no paper notes." That £14,475,000 of Bank of England notes issued against securities are certificates of bullion is by no means so clear and distinct to others as to himself. In another part of his evidence (3648) he illustrates his definition thus:—"That practical and sagacious statesman, Sir Robert Peel, applied his mind to the subject. He at once grasped the true character of the paper bank note," (derived from his own opinion given before the committee of 1840, and for which he says he felt complimented, 4124) "he saw that if it was at all times to be converted into gold, it must be treated as the direct representative, or I may say as the shadow of the gold." Had Sir Robert Peel grasped in his hand the bank note of some country bank that had stopped payment, we could have understood its similitude to a shadow of gold. But a Bank of England note is neither the shadow of gold nor of money—*it is itself money, and of the best quality, being a perfect security for obtaining its equivalent specified value in capital in every civilised country in the world.* We would ask, are not Bank of England notes, and all bank notes, merely securities upon which the public advance their capital—the bankers who issue them lending their credit only, upon the strength of which the public lend their capital. The bullion and other cash reserves held by the bankers are a security to them to enable them to discharge their promises to pay on demand, but do not the notes themselves circulate with the public merely as personal securities, and not as certificates of bullion?

Fallacy No. 4.

That all great fluctuations in the rate of interest may be distinctly traced to alterations in the value of capital—minor ones to alterations in the quantity of money.

Lord Overstone, in reply to question 6653, says—"I have already stated, and perhaps it is better to restate—for really the difficulty of hammering truth into the public on this subject is something very disheartening—that the fluctuations in the rate of interest arise from one of two causes—an alteration in the value of capital or an alteration in the amount of money in the country. All great fluctuations of interest, great either in their duration or the extent of their fluctuation, may be

distinctly traced to alterations in the value of capital; two more striking illustrations of that fact cannot be furnished than the rise in the rate of interest in 1847, and during the last two years." It is certainly very difficult to hammer truth into the public on the subject of the currency, and much more so, fallacies. The first difficulty we have to encounter in the explanation of this fallacy is the confusion arising from confounding money and capital, and confusion is made worse confounded by Lord Overstone's evidence. He says in answer to 3720—"It is a very common fallacy to consider money and capital as the same thing," and yet in answer to 3243, he says—"If France to-morrow put out a notice that she wishes to borrow a very large loan, there is no doubt that it would cause a very great alteration in the *value of money—that is to say, in the value of capital* in this country." He is asked (3744), "Would you be so good as to describe what you mean by the term capital?" This he declined to do. He replies, "I am afraid that this is going into a question which is a little beyond such a body as this fully to enter into—(not very complimentary to the committee of which James Wilson was a member—nor creditable to himself as the founder of a monetary system.) "If you want me to define capital, I shall beg leave to decline entering into scientific definitions." Again (3756), "Your lordship now uses the term money. I understood you before to say it was a loss of capital?"—In reply to 4023 he admits there was a "curious jumble of words" in a previous answer he had given. We should say of ideas likewise, and cannot acknowledge him to be a great authority on the currency when he declines to define capital, and takes shelter in the declaration "that the use of the word capital is very dangerous" (4140.) In the definition of money, he and the bank committee, after some dispute, came to the conclusion "that money is merely a means by which capital is obtained." The confusion between money and capital is increased by the general idea that the value of money depends upon the abundance or scarcity of capital; this is true to a certain extent, and arises from the magical influence of the connecting link between them—credit. When capital is abundant, be it from good harvests or any other cause, credit is also abundant, and credit money (which is unlimited in amount compared to that of coin money, and has the same influence on price), is plentiful and money is cheaper. On the other hand, when capital is scarce, be it from bad harvests, or great losses, or any other cause, credit and credit money are scarce, and money is dearer. Money and capital are also intimately connected, being demand and supply to each other. The owner of money seeks to exchange it for capital to satisfy

his wants and desires, and the owner of capital seeks to exchange it for money to obtain other capital more suitable to his wants and desires. They are nevertheless, distinct, and must be kept so in the mind's eye in considering this vexed question of the currency. As Adam Smith says, "The great wheel of circulation (money) is altogether different from the goods (capital) which are circulated by means of it." Money can buy, or in other words, be exchanged for capital at all times; but capital cannot buy, or be exchanged for money at all times. This difference was made palpably evident in the late panic, when there was plenty of capital, but a dearth of money. If all restrictions on the quantity of both were removed, (the quality being good and the state of credit healthy,) this great discrepancy would be avoided, and the advantages of Free Trade in both would be manifested. We will, therefore, assume the ordinary definition of capital to be correct, *that it is services and commodities used in production, and that money is the means of obtaining and exchanging these, by virtue of its cardinal property as a security for obtaining its equivalent value in capital.*

Having endeavoured to remove the confusion between capital and money, we proceed to the consideration of the fallacy that all great fluctuations in the rate of interest may be distinctly traced to alterations in the value of capital. This question then presents itself—Did the recent alteration in the value of capital in this country to the extent of some 20 to 50 per cent. in raw materials, precede or succeed the alteration in the value of money? The late panic gives us an excellent opportunity of answering. All admit that the panic originated in a suspicion that railway property in America had been over-estimated in public opinion—that the dividends paid had not been honestly earned. This suspicion proving to be well founded, gave a great blow to confidence in them, and almost annihilated the credit money which had been created and kept afloat on the credit of their imaginary value. This collapse of credit extended to Europe, and produced similar effects—the necessity of liquidating credit money, and the consequent diminution in the quantity of money. All had to run for specie, such as bank notes and Government paper. The run in each country and the advance in the rate of discount was in proportion to the breadth and soundness of the cash basis of their respective monetary systems. The wider and sounder the basis in proportion to the superstructure of credit, the less severe was the pecuniary pressure and the lower the rate of discount. In England the run was for gold and for Bank of England notes, (limited by the Act of 1844) being the legal tender constituting our monetary basis. In France, for silver,

and gold, and notes of Bank of France, which latter, though not a legal tender, are in public belief considered to be as good money as specie. In Prussia the run was for silver and Government paper. In Hamburg the run was for silver, their only legal tender, having no State paper-money, and consequently having the narrowest monetary basis of any country, her embarrassment was the greatest, and so extreme as to oblige her to become indebted even to Austria for assistance.

To return to the question, whether the recent alteration in the value of capital preceded or succeeded the alteration in the value of money, we shall endeavour to show that the price of commodities (other circumstances influencing supply and demand remaining the same) rise and fall with the expansion and contraction of credit, and the consequent contraction and expansion of credit money. Any great loss to capital, as we have already shown, diminishes the quantity of credit money (and all paper money, from a bank note to a bill of any length of date, is credit money,) and raises the rate of discount, and *vice-versa*. The explanation of this effect we shall find on reflecting that capital, the produce of labour, is the foundation of the purchasing power; but that the belief that a person possesses capital, which is credit, has a power of purchase equal to capital itself. A person going into a market, and buying goods upon credit affects prices just as much as if he bought for cash—prices depending on the proportion of demand to supply, and the demand being increased just as much by credit as by cash. This view is corroborated by J. S. Mill, who says, "I apprehend that bank notes, bills, or cheques, as such do not act upon prices at all. What does act upon prices is credit, in whatever shape given, and whether it gives rise to any transferable instruments capable of passing into circulation or not."

We submit that we have shown that during the period of the last two years, to which Lord Overstone refers as a striking practical illustration of the correctness of his own views, the alteration in the value of capital succeeded and was the consequence of the alteration in the value and quantity of money; and with regard to his other practical illustration, of 1847, the Lords Committee, which sat in 1848, after taking into their consideration all the vast losses of capital incurred at that period, reported "That the restrictions (on the currency, imposed by the Act of 1844) materially aggravated the pressure (for money, raising the rate of discount) and producing the panic of October, 1847." We come, then, to the conclusion that great fluctuations in the rate of interest (discount?) are not owing, and cannot be distinctly traced, as Lord Overstone maintains, to an alteration in the value of capital; but, on the contrary, that an alteration in the value of capital, other causes remaining the same, is owing to a diminished quantity of money and credit, the same cause being equally applicable to great and minor fluctuations.

Fallacy No. 5.

That the practical effect of increasing the issue of Bank Notes to the extent of two millions against securities would be to decrease the issue against Bullion to the same extent. That such an issue would not add one farthing to the money of the country, nor afford any relief to trade worth mentioning.

3691. "You entertain, no doubt, that the practical effect of enlarging the limit from £14,000,000 to £16,000,000, would be not to add £2,000,000 to the paper currency, but to diminish the Bullion Reserve of the Bank by £2,000.000."

Ans. "No person who understands the elements of the subject can entertain a doubt upon that point. It would cause an increase of £2,000,000 in paper notes issued against securities; at the same time it would cause a decrease of £2,000,000 in the amount of paper notes issued against Bullion, There would be no absolute increase in the aggregate amount of paper money. There would be in the Issue Department an increase of securities, and a decrease of Bullion in each case to the extent of £2,000,000." In another part of his evidence (3910) he says "It will not add one farthing to the money of the country."

3692. You consider that as certain as anything that cannot be made a matter of mathematical demonstration, do you not? "I consider it to be as fundamental in discussing this subject as a definition of Euclid is in discussing any of the works of Newton.

3624. "Whatever relief was afforded to trade would merely be momentarily?" "The relief afforded to trade, I think may be thrown out of the question: it clearly does not touch the principles we are discussing: one may fairly say that there would be no relief afforded to trade: it would be temporary to so slight a degree that it is not worth speaking of."

Can it be believed, that such evidence as this was given on the 10th of July, and that four months later, on the 12th of November, when the Act was suspended, £2,000,000 of additional notes were actually issued against securities, producing the very opposite effects so confidently predicted by Lord Overstone. The issue of notes against Bullion were increased instead of being diminished; and Bullion flowed, into the Bank, at the rate of £1,000,000 a week instead of flowing out as previously at the rate of a million and a quarter: and,

instead of the relief to trade being hardly worth mentioning, the trade of the country was saved, as but for the suspension of the Act, the Bank of England would undoubtedly have stopped payment, and the whole machinery of the credit system of the country would have been brought to a dead lock.

Fallacy No. 6.

That the object of discounting is only to obtain the command of a greater quantity of capital, and that the rate of discount is the price paid for the command of capital.

3729. In reply Lord Overstone asks, "What is the meaning of discount, why does a person discount a Bill? He discounts a Bill because he wants to obtain, not money for its own sake, it is useless in itself—he discounts a Bill because he wants to obtain a greater amount of capital."

Discount, we apprehend, is an allowance made for ready money, is the price paid for converting credit into cash, for exchanging Bills, one sort of money, into Bank Notes, another sort of money. Discounting therefore is not for the purpose of obtaining a greater command of capital,—A bill for £1000 accepted by Jones, Loyd, and Co., would give just as great a command over capital as a Bank of England Note of the same amount, minus the charge for discount. Bills are discounted for the purpose, either of obtaining money of a more convenient denomination for wages and smaller cash payments, or for the legal tender to meet engagements falling due. This is the main object of discounting, and bears out the position we have advocated that the rate of discount in this country depends fundamentally upon the demand and supply of the Legal Tender. The rate of discount then is paid for the use of money itself, our contracts being made in money, and no Capital until converted into money can discharge them. Lord Overstone appears to have obtained his idea of money in early days. He is asked. (3757.) "Do I rightly understand your Lordship to say that the money was the capital?" No, I said just the reverse; I say that with money, retained as money, and not used as a means of obtaining capital, you can do nothing; you might just as well have a parcel of old iron. When I was a child a sovereign was given to me, with the grave admonition that as long as I kept that sovereign in my pocket I should never be without money: but I soon found that no good came to me from keeping the sovereign in my pocket." True, but if he had previously obtained capital on credit and come under an engagement to pay one pound in money for it, he would have found his sovereign of great use in keeping him out of limbo, and that capital of itself, would not have answered the purpose.

Fallacy No. 7.

That the convertibility of the Bank of England Note was endangered in 1825.

3793. "With respect to the three drains from 1819 to 1844, you have stated that they involved three great alarms for the convertibility of the note. Can you give any proof of that, that the alarm at that time was for the convertibility of the note? It is like asking me to give a proof that the sun rose this morning. It is universally known and recognized by every body who lived in the commercial or monetary world during that period. It is perfectly notorious that in 1825 the Bullion was drained out, and that if there had not been found some £7 or £800,000 worth of £1 notes the Bank must have answered that they had no more sovereigns to give. 3795. "Then, under the most adverse circumstances of a drain of bullion, when it was stated that the Bank was within twenty four hours of a state of barter, these one pound notes, which came out of the Bank, so far from being discredited, staved off the panic?"

Ans. "They were not discredited in the slightest degree." He commences his evidence with stating that it was as certain that the Bank note was discredited in 1825, as that the sun rose that morning—and concludes by admitting that they were not discredited in the slightest degree. Can self contradiction further go? One additional instance I will give. 3896. "Do I correctly understand your Lordship, that you give up the argument which you used in 1840, that the fluctuations in the notes out of the Bank of England ought to conform to the fluctuations in the amount of Bullion?"

"I give it up so far as this—If that is the meaning of giving it up—it is really completing the statement, in no respect giving it up—that now with the means of information we possess, the notes out of the Bank of England must have added to them the notes which are in the Banking Reserve of the Bank of England.

Here, in the same sentence he gives it up, and does not give it up—nay, he is still more confident of its being correct. In 1840 before the committee he stoutly maintained that the notes *out* of the Bank should fluctuate with the Bullion, but now that statistics prove this position to be untenable, he says, the notes *in* the Bank must be added.

It seems difficult for him to acknowledge himself to be in the wrong, and yet we must do him the justice to say that in one instance, the repeal of the Corn Laws he did retract. We well remember calling on him, along with John Bright and Henry Ashworth, to solicit a subscription for the Anti-Corn-

Law League, when he not only refused, but remonstrated with us for disturbing the country by agitating the question. Subsequently he subscribed, that we need not despair of his ultimate conversion to the principle of Free Trade in a Sound Currency, i.e. of metal and of paper perfectly convertible into metal—and particularly as he admits (3856) "that free trade in an article is the best mode of procuring all the results with regard to it which you desire, is a principle which I fully adopt." Why then oppose practice to principle, by advocating monopoly in the article of money? Sooner or later he will have to give up this unjust privilege.

Fallacy No. 8.

That violent fluctuations in the rate of discount are prevented by the Act of 1844.

3986. He says "The changes in the rate of discount may probably be more frequent, but on that very account, they will be less violent: and I have already stated that I think the frequency of the oscillation is really an essential principle in the utility: and I have given an illustration which seems to me in point. It is like the rapid and multiplied oscillations of a tight-rope dancer, if you allow him to go on for some time, instead of righting his position, the moment it is disturbed, he will lose his balance and tumble over, and it is precisely so with your monetary system."

This is rather an unfortunate illustration of the operation of the Act of 1844, for the distinguished performer did lose his Balance (of Reserve) during two celebrated exhibitions in 1847 and 1857, and was in such a panic that he tumbled over and would have broken his neck, had not his friends come to his assistance and suspended him—Two more violent oscillations could not well have been conceived, and the second was the more to be wondered at, after the assurance of the Master of the Circus that the accident would never occur again, as his favourite performer now understood the principles (of the Act) better, and would make the rope still tighter, when called into action. Lord Overstone said in 1848, "That the commercial prosperity of the country will be restored, and even be placed on a firmer foundation by the events of last year (the panic of 1847.")

Fallacies sufficient have perhaps been enumerated to show that Lord Overstone's notion of Money being merely coin and Bank notes, leads him to explain all the phenomena of the Currency incorrectly, to see them through a false light, and from such a fallacious 'Standpunct' that there is hardly a principle that he lays down, or an inference which

he draws, or an opinion which he gives, that is not open to dispute.

There is evidently a great reluctance on his part to come to a clear definition of terms—He declines to define capital, and he prefers the term Money, which is very indefinite to Legal Tender Money which is less so—he says (3818.) "I think you had better keep to the word "Money," I do not know what may be meant by Legal Tender—Nor did he know, which is very strange in so great an authority, that Bank of England notes were not a Legal Tender in Scotland and Ireland; he is asked (4152.) Are you aware that Bank of England Notes are not a Legal Tender in Scotland and Ireland."

Ans. "I do not know how that is."

If the language of these comments should appear too positive and strong, it must be remembered that they are made on the evidence of one, whose expressions are dictatorial and offensive in the extreme to his opponents, and even insolent to the Committee,—the Representatives of the People. He characterises the views of some of them as "absurd, perfect quackery, and perilous nonsense," and this, in defence of a pecuniary system which benefits his own class at the expense of all others. We feel justified therefore in copying his own words (4193) as being more applicable to himself than to his opponents.—"It is *perilous nonsense* coming from high quarters, from which we are entitled to expect more sound information and safer advice, you may rest assured; I must speak plainly, I have a great public duty to discharge in giving my evidence in this matter." And also in quoting against his Monetary System, his own quotation respecting the American System: "It is supposed that in this latter crash, nearly one hundred and eighty Banks, including the Bank of the United States were perfectly destroyed: and the loss occasioned by the depreciation which it caused in the valuation of Stock of all kinds, and of all sorts of property was quite enormous; (the failures in this country in the late panic are alone estimated at £100,000,000, and the depreciation of property is incalculable,) and yet great as was the loss, it was really trifling, as the Writer in the American Almanac has stated, compared with the injury resulting to society from the upheaving it occasioned of the elements of social order, and the utter demoralization of men by the irresistable temptation to speculation which it afforded, ending in swindling to retain illgotten riches.

Contrast the eulogium on the Act of 1844, chaunted by him before the Committee in July last, with the state of things in November (4189.) "Look around," he says, "look at the

present state of the trade of the Country, look at the prosperous condition of the Revenue of the Country, look at the contentment of the people, look at the wealth and prosperity which pervades every class of the community, and then having done so, the Committee may be fairly called upon to decide whether they will interfere with the continuance of an Act under which these results have been developed."

Contrast again the eulogium, and its flattering anticipation of further blessings, with the prediction of Mr. Fullarton in the concluding sentence of his admirable work on the Regulation of the Currency, published in 1845, the year after the passing of the Act—"That if the spirit in which the restrictive clauses of the Bank Act are framed is to be consistently acted up to a state of circumstances can well be imagined, in which the catastrophe would be as tremendous as it would in all likelihood be sudden and irretrievable, shaking even to its foundation the entire financial fabric of the Realm."

Let the Public compare these diametrically opposed prognostications of the operation of the Act of 1844, by its most powerful advocate and parent, and by one of its ablest opponents.

Let them consider the arguments of Lord Overstone and of Mc Culloch (his echo, judging from his recent Treatise) on the one hand, and of Fullarton, Tooke, Mills, and Wilson, on the other, with the evidence that has already been published, and with that which has to be given before the next Committee, (a public one it is to be hoped, and not a secret committee composed of a majority of the moneyocracy) and then it may be fairly left to the Public to decide on the merits of the Bank Charter Act of 1844.

Alas! ye gentlemen of England
who live at home at ease,
How little do you think on the danger
of such Laws as these.

WEBB, MILLINGTON, AND CO., PRINTERS, LEEDS AND OTLEY.

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TITLE